

BEFORE  
THE PUBLIC SERVICE COMMISSION OF  
SOUTH CAROLINA  
DOCKET NO. 90-759-C - ORDER NO. 91-327 ✓  
APRIL 24, 1991

IN RE:      Petition of Piedmont Rural            )      ORDER INCREASING  
             Telephone Cooperative for an        )      AUTHORIZED RATE  
             Increase in its Authorized          )      OF RETURN  
             Rate of Return                        )

On December 31, 1990, Piedmont Rural Telephone Cooperative (the Company) filed a Petition with the Public Service Commission of South Carolina (the Commission) requesting an increase in its authorized rate of return on rate base. The Company did not seek any change in its basic rates and charges. The petition was filed pursuant to S.C. Code Ann. § 58-9-10, et. seq, (1976), S.C. Reg. 103-830, et. seq. (1976), and in response to a Commission Staff audit report which indicated that the Company's rate of return on rate base, after accounting and pro forma adjustments, was 12.32%, based on the twelve months ending December 31, 1989.

By letter dated January 9, 1991, the Commission's Executive Director instructed the Company to publish a prepared Notice of Filing in newspapers of general circulation in the effected areas, once a week for two consecutive weeks. The purpose of the Notice of Filing was to inform interested parties of the nature of the petition and the manner and time in which to file the appropriate pleadings for participation in the proceeding. Thereafter, the Company provided the Commission with proof of publication of

the Notice of Filing. A Petition to Intervene on behalf of Steve Hamm, Consumer Advocate for the State of South Carolina (the Consumer Advocate) was filed with the Commission.

The Company's present authorized rate of return on rate base is 6.80%. The Commission found that the local rates requested in the Company's last rate adjustment proceeding in Order No. 84-22, issued in Docket No. 83-265-C, dated January 18, 1984, was fair and reasonable and would result in a rate of return on rate base of 6.80%.

On April 9, 1991, at 11:00 a.m., a public hearing was commenced in the Commission's Hearing Room. The Honorable Marjorie Amos-Frazier presided. M. John Bowen, Jr., Esquire, represented the Company; Elliott F. Elam, Esquire, represented the Consumer Advocate; and F. David Butler, Staff Counsel, represented the Commission Staff.

The Company presented the testimony of Max R. Whitehurst, a Certified Public Accountant, to explain his accounting exhibits illustrating the Company's actual rate of return on rate base, to explain his adjustments to the Company's books, and to explain his opinion that the Company's currently authorized rate of return should be modified. The Commission Staff presented the testimony of Sharon G. Scott, Utilities Accountant of the Commission Administration Division, to summarize Staff's findings and recommendations. The Consumer Advocate did not present any witnesses.

Witness Whitehurst testified that the Company is requesting the Commission to authorize a return on rate base in the range

of 13.00%. In his opinion, a range of 13.00% was a reasonable rate of return on investment for the Company. Whitehurst stated that a range of rate of return would allow for some variation in operating results from year to year. Whitehurst emphasized that the Company was not seeking any changes in its rates in this proceeding but was requesting that the Commission adjust the authorized rate of return on rate base from the amount authorized in 1984 up to 13.00%.

The Consumer Advocate cross-examined Witness Whitehurst on his reasons for setting a return on rate base based on a rate of return on investment rather than a rate of return on common equity. Whitehurst explained that, like other independent, rural telephone companies in South Carolina, in his opinion, it was inappropriate to compare Company to the larger telephone holding companies whose approved return on rate base is based on a rate of return on common equity. Whitehurst testified that Company operates with a greater degree of risk than the larger holding companies. He explained that a major disaster could fatally upset the financial stability of the Company and that small telephone companies have a greater difficulty in obtaining financing. Whitehurst stated that new and unanticipated expenses such as increased competition from the coin telephone and directory advertisement businesses, the increased billing costs due to the growth of the number of interexchange carriers, and changes in accounting procedures are particularly burdensome on the small rural telephone company. Finally, Whitehurst testified that the Commission has recently approved a rate of return on investment between 12 and 13.00% for four similar companies, Hargray Telephone Company, Heath Springs Telephone

Company, Williston Telephone Cooperative, and Horry Telephone Cooperative.

After a thorough review of the evidence presented and the applicable law, the Commission makes the following findings of fact and conclusions of law.

#### FINDINGS OF FACT

1. Piedmont Rural Telephone Cooperative is a South Carolina company which owns and operates equipment and facilities for the transmission of intelligence for hire in this state.

2. Company's present authorized rate of return on rate base of 6.80% is insufficient to provide the Company an opportunity to earn a fair return on its rate base.

3. The Commission Staff conducted an audit showing that the Company's rate of return on rate base was greater than that previously authorized by the Commission.

4. In response to Staff's audit report, the Company stated that it would seek an authorized rate of return on rate base.

5. Company filed a petition on December 31, 1990, seeking an authorized rate of return on rate base.

6. Company alleges a fair and reasonable rate of return is in the range of 13.00%.

7. Company is not seeking any adjustments in its rates and charges.

8. Accounting and pro forma adjustments were made to the Company's books in order to illustrate the Company's present earnings to the Commission.

CONCLUSIONS OF LAW

1. The Company is a utility within the meaning of S.C. Code Ann. § 58-9-10(6)(1976). Consequently, Company's intrastate operations are subject to the jurisdiction of this Commission.

2. Because accounting and pro forma adjustments were made in order to illustrate the Company's present earnings, the Commission need not determine the appropriateness of the adjustments.

3. Because Company is a small, independent utility, this Commission will not make a determination as to the appropriate capital structure of the Company. Further, the Commission will not authorize a rate of return on equity.

4. Based upon the evidence, a fair and reasonable return on rate base of 13.00% is authorized for the Company.

5. This newly authorized rate of return on rate base will not affect the Company's present rates and charges.

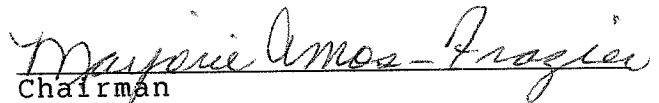
6. A rate of return on rate base of 13.00% will allow the Company to meet its statutory requirements to provide adequate, efficient, and reasonable service, will provide a return to the Company's owners commensurate with returns on investments in other enterprises with corresponding risks, and will assure confidence in the financial integrity of the Company.

IT IS THEREFORE ORDERED.

1. Piedmont Rural Telephone Cooperative is hereby granted the opportunity to earn an authorized rate of return of 13.00% on its South Carolina combined rate base.

2. This Order shall remain in full force and effect until further Order of this Commission.

BY ORDER OF THE COMMISSION:

  
Chairman

ATTEST:

  
Executive Director

(SEAL)